

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:177

ANSWERED ON:16.11.2007

RECOVERY OF LOANS

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Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has received complaints regarding illegal and coercive ways adopted by banks for recovery of outstanding loans from defaulters;
- (b) if so, the details of complaints received by the Government during 2006-07 as on date, bank-wise;
- (c) the action taken by the Government on such complaints; and
- (d) the steps taken by the Government to check such practices of banks for recovery of their outstanding loans?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) & (b): Reserve Bank of India (RBI) has reported that incidents of alleged use of coercive methods by some banks for recovery of loans in case of default has come to their notice. However, details in this regard are not collated by RBI.

(c): The complaints in respect of use of musclemen and harassment of the defaulting customers are taken up by RBI with the concerned banks for comments and appropriate action. In case of any violation of extant guidelines by a bank, appropriate regulatory action is taken by RBI.

(d): As per RBI guidelines on Fair Practice Code for Lenders issued in May, 2003, it is inter-alia, stipulated that in the matter of recovery of loans, the lender should not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans etc.

RBI has also issued instructions to all commercial banks/NBFCs (excluding Regional Rural Banks) in November, 2005 regarding Credit Card Operations, which inter-alia, stipulate that their agents should not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts. This includes acts intending to humiliate publicly or intrude the privacy of the credit card holders, family members, referees and friends, making threatening and anonymous calls or making false and misleading representations. The Code of Banks' Commitments to Customers formulated by Banking Codes and Standard Boards of India (BCSBI) provides, inter-alia, that the collection policy of the bank be built on courtesy, fair treatment and persuasion and the bank follows a security repossession policy in consonance with the law.

The IBA has formulated a 'Model Code for collection of dues and repossession of Security' which has been recommended to banks in January, 2007 for adoption and implementation. The Model Code, inter-alia, provides that banks commit to maintaining the dignity and respect of customers in their Debt Collection Policy and not follow policies that are unduly coercive in collection of dues. Further, in the Mid-Term Review of Annual Policy Statement (dated October 30, 2007), RBI has observed that in view of the rise in the number of litigations against banks for engaging recovery agents in the recent past, it is felt that the adverse publicity could result in serious reputational risk for the banking sector as a whole. RBI has further observed that an urgent need has, therefore, arisen to review the policy, practice, procedure involved in the engagement of recovery agents by banks in India. RBI has urged banks to follow prescribed specific considerations while engaging recovery agents. RBI has stated that complaints received regarding abusive practices followed by a bank's recovery agents would invite serious supervisory disapproval. RBI would consider imposing a temporary ban (or even a permanent ban in case of persistent abusive practices) for engaging recovery agents on those banks where strictures have been passed/penalties have been imposed by a High Court/Supreme Court or against its Directors/Officers with regard to the abusive practices followed by their recovery agents.